

affiliated with specialist organizations from participating in the discussions and decisions concerning proposed specialist combinations. As a result, approval of Amendment No. 1 should result in a fairer and more impartial decision making process. In addition, Amendment No. 1 is similar to rules of other self-regulatory organizations.¹⁴ For these reasons, the Commission finds good cause for accelerating approval of the proposed rule change, as amended.

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Boston Stock Exchange. All submissions should refer to File No. SR-BSE-95-12 and should be submitted by November 22, 1995.

It therefore is ordered, pursuant to Section 19b(2) of the Act,¹⁵ that the proposed rule change (SR-BSE-95-12), including Amendment No. 1, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36418; File No. SR-CBOE-95-60]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to the Calculation of Bid/Ask Values for Certain Indexes

October 25, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on October 20, 1995, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The CBOE proposes to amend CBOE Rule 8.7, "Obligations of Market Makers," by adopting Interpretation and Policy .08, which will allow the Exchange or its agent to calculate and disseminate bids and asks for various indexes for the purpose of determining permissible bid/ask differentials for in-the-money options on those indexes. The values will be calculated by determining the weighted average of the bids and asks for the components of the corresponding index.

The text of the proposed rule change is available at the Office of the Secretary, CBOE, and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Currently, CBOE Rule 8.7(b)(iv) states that the bid/ask differentials provided in CBOE Rule 8.7(b)(iv) shall not apply to in-the-money series where the underlying securities market is wider than the differentials set forth in CBOE Rule 8.7(b)(iv). For those series, CBOE Rule 8.7(b)(iv) provides that the bid/ask differential may be as wide as the quotation on the primary market of the underlying security.

The purpose of the proposal is to permit the bid/ask values of certain indexes, as calculated by the CBOE or its authorized agent, to be used to determine the allowable bid/ask differential for options on the corresponding index, as is currently permitted under CBOE Rule 8.7(b) for equity options. The indexes for which the Exchange currently will provide bid/ask values are the CBOE Biotech Index, the Standard & Poor's ("S&P") Banking Index, the S&P Chemicals Index, the CBOE Computer Software Index, the CBOE Environmental Index, the CBOE Gaming Index, the S&P Health Care Index, the S&P Insurance Index, the CBOE Israel Index, the CBOE Mexico Index, the S&P Retail Index, the S&P Transportation Index, the S&P Telecommunications Index, the CBOE Global Telecommunications Index, and the CBOE Real Estate Investment Trust ("REIT") Index. The CBOE may make additions or deletions to this list as conditions warrant. The CBOE represents that any additions to the list will be communicated to the Exchange's membership by means of a regulatory circular.

The Exchange notes that CBOE Rule 8.7 specifies the obligations of a market maker in maintaining a fair and orderly market, including pricing option contracts fairly. In order to price option contracts fairly, CBOE Rule 8.7(b) requires market makers to make bids and offers so that a difference of no more than 1/4 of \$1 is created between the bid and offer for each option contract for which the bid is less than \$2. The allowable differential between the bid and the offer increases in steps as the price of the bid increases, so that the bid/ask differential can be as large as \$1 where the bid is more than \$20. An exception exists with respect to these specified numerical differentials, however, for in-the-money option series where the underlying securities market is wider than the differentials set forth in CBOE Rule 8.7(b). For these series, CBOE Rule 8.7(b)(iv) permits the bid/

¹⁴ See, e.g., PSE Rule 11.3 (prohibiting committee members from adjudicating any matter in which they have an interest).

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 15 CFR 200.30-3(a)(12).

ask differential on the option to be as wide as the quotation on the market of the "underlying security."

According to the CBOE, the language of CBOE Rule 8.7(b)(iv), which permits spreads on the options to be as wide as the spread on the underlying security, does not apply to the indexes traded on the CBOE because these indexes are not "underlying securit[ies]." As a result, the Exchange states that it generally has required market makers in options on these indexes to maintain bid/ask differential in line with the specified numerical differentials set forth in CBOE Rule 8.7(b)(iv).¹ For a variety of reasons, however, the Exchange notes that bid/ask values on the components of the index may be quite wide. As a result, market makers may be discouraged from making quotes on options on these indexes if they are forced to make quotes within narrow spreads.² The liquidity in these options will in turn be affected.

To protect market makers from having to make bid/ask quotes on the index options that have an inordinately small differential in comparison to the bid/ask differentials of the components of the index, the Exchange proposes to add Interpretation and Policy .08 to Exchange Rule 8.7. This interpretation will permit the Exchange to disseminate an index bid/ask differential to provide a basis for an exception to the numerical limits provided in CBOE Rule 8.7(b)(iv) for in-the-money option series, thus giving the market makers of these index options the same protections offered by CBOE Rule 8.7(b)(iv) to equity option market makers. The Exchange states that it will nonetheless encourage its market makers to make markets as narrow as possible in these indexes, particularly in the lower priced series.

The CBOE recognizes that in the limited circumstances of a slightly in-the-money index option approaching expiration, the index bid/ask differential may not be an appropriate measure for the maximum permitted bid/ask spread on the option. However, the Exchange does not expect the adoption of proposed Interpretation and Policy .08 to result in unduly wide spreads for index options in this circumstance. Instead, the Exchange is confident that competition among market makers on the Exchange and, in the case of

multiply listed options, on other exchanges, together with arbitrage possibilities that would exist if the spreads for slightly in-the-money options were to become too wide, will act to keep bid/ask spreads for index options within narrow limits even in the circumstances where proposed Interpretation and Policy .08 would appear to allow wider spreads. The Exchange notes that this has been the CBOE's experience under existing CBOE Rule 8.7(b)(iv) as it applies to high priced stocks in the \$300 to \$700 range, where CBOE Rule 8.7(b)(iv) might also appear to permit unrealistically wide spreads for low-priced, slightly in-the-money options, but where in fact spreads have remained within reasonably narrow limits.

To calculate the bid/ask values on these certain indexes, the Exchange or its agent will calculate a bid and an ask for the index that is simply a weighted average of the bids and asks of the components of the index. These values will be calculated in the same method that the index itself is calculated. For example, if the index is calculated by a price-weighted method using the closing prices, then the bids and asks on the index will be calculated using the same formula and the same weights but using the last bids and the last asks, respectively, instead of the closing price. These index bid/ask values will then be disseminated to the public and to the trading floor by way of the Options Price Reporting Authority ("OPRA"). OPRA has represented that it has the capacity to disseminate these values.³

The CBOE notes that although the Exchange will disseminate bid/ask values in the indexes, it will not make a market in the underlying basket of stocks representing the indexes. In addition, the Exchange represents that although it will take appropriate precautions to assure the accuracy of the bid/ask values which it disseminates, the CBOE will not guarantee the accuracy of the bid/ask values because the calculations necessarily require the collection of data from many sources. Consequently, the Exchange is also

specifying in proposed Interpretation and Policy .08 that the Exchange will not be liable for any errors, omissions, or delays in the provision or calculation of the index bids and asks. The Exchange believes that this limitation of liability is reasonable because it is consistent with the current limitation of liability for the calculation of the index itself and because these values are being provided only for the express and limited purpose of determining permissible bid/ask differentials.

The CBOE believes that the proposed rule change will contribute to more liquid markets in the options on the indexes by providing market makers in these series with the same protections that are afforded market makers in equity options. Therefore, the CBOE believes that the proposal is consistent with Section 6(b) of the Act, in general, and, in particular, with Section 6(b)(5), in that it provides rules designed to perfect the mechanisms of a free and open market and to protect investors and the public interest.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The CBOE does not believe that the proposed rule change will impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were either solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; (3) was provided to the Commission for its review at least five business days prior to the filing date; and (4) does not become operative for 30 days after October 20, 1995, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(e)(6) thereunder. In particular, the Commission believes that the proposal does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public

¹ Under CBOE rule 8.7(b)(iv), the CBOE's Market Performance Committee may establish differences other than those stated in paragraph (iv) for one or more option series.

² The CBOE states that if market makers are required to make markets that are narrower than the underlying index, they will have difficulty in profitably hedging their positions with a basket in the underlying securities if it is necessary to do so.

³ See Memorandum from Joseph Corrigan, Executive Director, OPRA, to Eileen Smith, dated September 20, 1995 ("September 20 Memorandum"). Specifically, in its September 20 Memorandum, OPRA represents that it has the capacity to disseminate underlying index values based on the bid and ask values of the stocks in the index for the indexes that the CBOE is currently authorized to send to OPRA. In addition, the September 20 Memorandum states that for new index filings, OPRA will review its capacity when the filing is made. Accordingly, the Commission expects the CBOE to obtain a capacity representation from OPRA prior to listing bid/ask differentials for a new index.

interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted by November, 22, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴

Margaret H. McFarland,
Deputy Secretary.

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[Release No. 34-36420; File No. SR-CBOE-95-66]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Chicago Board Options Exchange, Incorporated, Relating to the Increase in the Retail Automatic Execution System Order Size Limit for Performance Systems International, Inc.

October 26, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 26, 1995, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission

("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to increase the size of orders eligible for entry into its Retail Automatic Execution System ("RAES") for all classes in Performance Systems International, Inc. This action was recommended by the Exchange's Equity Floor Procedure Committee ("EFPC") in order to match the size of orders eligible for entry into the Philadelphia Stock Exchange's automatic execution system for the same option classes. The text of the proposed rule change is available at the Office of the Secretary, the Exchange, and at the Commission.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Section (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

As of October 26, 1995, the Exchange and the Philadelphia Stock Exchange, Inc. ("Phlx") will begin trading equity options on Performance Systems International, Inc. The NASDAQ stock symbol for Performance Systems International is "PSIX" and the option symbol is "SQP."

The Phlx will impose a twenty-five (25) contract order size limit for orders that are eligible for entry into its automatic execution system, Auto-EX.³ CBOE Rule 6.8 permits the CBOE's EFPC to set an order size limit of up to twenty (20) contracts. However, CBOE Rule 6.8, Interpretation .01 allows the EFPC to set a limit higher than twenty to the extent necessary to match the

order size eligible for entry into the automatic execution system of any other options exchange on which the multiply traded option is traded, provided that notice of the increase has been filed with the Commission pursuant to Section 19(b)(3)(A) of the Act. In order to better compete with Phlx for orders in SQP, the EFPC has recommended to the Exchange that it make this filing to increase the order size eligible for entry in RAES for equity options in SQP to twenty-five (25) contracts. The CBOE believes that it has more than adequate system capacity and market-making capacity to handle the increase in the eligible RAES order size for Performance Systems International, Inc. options.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of change, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing rule change constitutes a stated interpretation with respect to the meaning, administration, or enforcement of an existing rule, it has become effective pursuant to Section 19(b)(3)(A), and Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

³ See Securities Exchange Act Release No. 32906 (September 15, 1993) 58 FR 49345 (September 22, 1993) (order approving Phlx's proposal to expand the order eligibility size of Auto-EX to twenty-five (25) contracts for all equity options).

⁴ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.